

## Stable operating profit



- NOTE's operating profit in the third quarter was MSEK 21,3 (17,6)
- Net sales increased by 30 % during the period, to MSEK 1 075,9 (826,3)
- NOTE reports a loss after tax of MSEK -69,2 (40,1) , or SEK -7,19 (4,56) per share
- As reported previously, NOTE's operating profit in the first half of the year was hit by costs relating to restructuring and provisions for write-downs of about MSEK 128
- Total sales in 2005 are expected to reach SEK 1 500 (1 103)
- On 15 September, Arne Forslund was appointed new CEO. He will assume his duties on 1 November 2005.

# Interim Report January – September 2005

**NOTE**

THE EMS PARTNER

## About the operation

The NOTE-Group is one of Scandinavia's leading suppliers of EMS (Electronics Manufacturing Services) and in addition, the only Swedish-owned global electronics manufacturer.

NOTE's business concept combines local EMS-services ("near sourcing") with a simple transfer of ongoing production to global units for the customer.

### *Continued consolidation*

During the period, NOTE focused on capital and cost rationalisation. Normally, the third quarter is a weak period for the industry, which puts a strain on liquidity, but NOTE was able to weather these effects, and the impact on the group's disposable liquid assets during the period was insignificant.

The ongoing consolidation activities included a review and enhancement of the group's internal procedures and control systems. The aim is to secure the business while building a stable platform for future growth.

## Market

The third quarter saw strong demand for products with a high technology content for production at the Swedish units. The need for volume production at NOTE's facilities in eastern Europe was somewhat lower.

Demand for product adaptation and production according to the RoHS directives continues to increase. The RoHS directives, which take effect on 1 July 2006, prohibit the use of lead in the soldering process. NOTE has adapted its production by investing in equipment that is adapted to lead-free production, primarily remelting furnaces and wave soldering machines.

### *Development*

In addition to EMS services NOTE also offers development assignments to product owners in Sweden (Contract Design, CD). There is an increasing tendency among companies buying contract production to also request contract development ("black box" orders), which explains why demand has continued to grow in this area.

### *Key events during the period*

NOTE has decided to focus its lead-free production within the group. As a result eight employees at NOTE Björbo were given notice 30 August. The group's printed circuit board production in Björbo is being moved to NOTE Torsby. In future, NOTE Björbo will serve as a unit for final assembly and testing.

On 15 September, the Board of Directors appointed Arne Forslund as new Managing Director and Chief Executive Officer of NOTE. Arne Forslund will assume his duties on 1 November, replacing Kjell-Åke Andersson, who will be at the disposal of management and ensure continuity. Arne Forslund has previously held executive positions at Danaher Motion, Ortivus, Siemens Elema and, most recently, Teleflex Morse, where he held the position of Operations Director Europe.



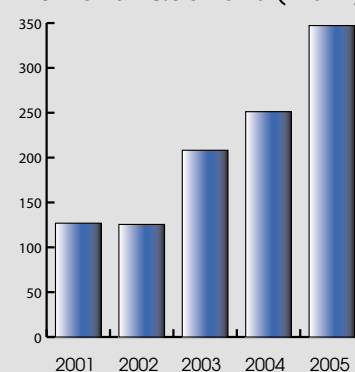
## Sales and profit/loss

**January-September** The Group's net sales for the period increased by 30 % to MSEK 1075,9 (826,3). The increase is due primarily to additional volumes from the group's new units in Skellefteå, Hyvinkää (Finland) and Pärnu (Estonia).

NOTE reports an operating loss of MSEK -87,7 (63,8). In the first half of the year, the operating result was hit by restructuring costs, provisions for write-downs and depreciation of trade debtors and inventories of approximately MSEK 128. Excluding the restructuring costs and provisions, NOTE posted an operating profit of MSEK 40,3 (63,8).

**July-September** The Group's net sales for the quarter increased by 38 % to MSEK 347,2 (251,2). The sales increase is largely due to additional sales from the group's new units. The operating profit for the quarter was MSEK 21,3 (17,6), an increase of 21 % on the same period last year. The effects of reversed provisions of write-downs did not affect the profit.

Turnover Quarter 3 (MSEK)

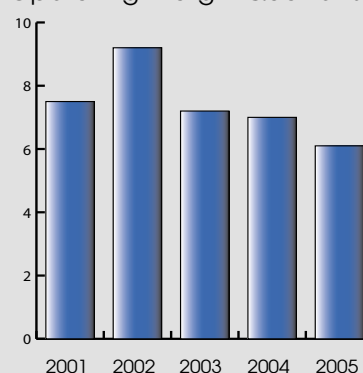


## Financial position and liquidity

At the end of September, the company's operating capital was MSEK 448,4, which is a decrease of MSEK 12,2 during the period, despite the acquisitions. The group achieved a positive cash flow from operations of MSEK 42,8 (30,4). After investments in the business, excluding acquisitions, the cash flow was MSEK 13,5 (8,9). Interest-bearing net debt was MSEK 257,1, an increase of MSEK 62,3 during the period, mainly as a result of new acquisitions.

Available liquid assets, including unutilised credit, were MSEK 53,6 (139,2) at the end of the period. The equity/assets ratio was 23 %.

Operating margin Quarter 3 (%)



## Investments

Out of the group's total investments of MSEK 76,0, MSEK 23,2 (21,5) represent investments in tangible fixed assets. Investments in the acquired units were 46,8 MSEK and provisions for additional purchase costs totalled MSEK 6,0 and relate to NOTE Nyköping-Skänninge in accordance with Recommendation RR 1:00 on Consolidated Accounting of the Swedish Financial Accounting Standards Council. Depreciation during the period was MSEK 23,9 (17,7)

## Employees

The average number of full-time employees during the period was 1 114 (860).

## Future outlook

### Long term

The European product owners are active in an increasingly globalized market, with demands on efficient product development, industrialization and manufacturing. NOTE's business model meets these needs with development resources, a pronounced technical focus and also – in the last stages of the product cycle – rational relocation of production to suitable production units. Since the demand for global access and technical intensive services is expected to increase, a possibility for increased market share in Europe is assessed as positive. The long-term margin goal (EBT) of 6 % remains.

### Current year

Total sales in 2005 are estimated at MSEK 1 500 (1 103).

## Accounting and valuation principles

This report was prepared in accordance with the Swedish Financial Accounting Standards Council's recommendations regarding interim reporting for groups (RR 31) as well as IAS 34. The company's primary segment is the manufacturing of electronics. Net sales and operating profit/loss that is to be reported as a segment can be found in the profit/loss statements below.



## **NOTE's transition to IFRS**

Beginning with 2005, NOTE is publishing its financial reports for the Group in accordance with the EU-adopted International Financial Reporting Standards (IFRS).

### *IFRS 1 The first time IFRS is being applied*

IFRS 1 deals with the transitional regulations upon introduction of IFRS. Some exceptions from a complete retroactive application are permitted. NOTE intends to use the exceptions below – the other exceptions are not applicable to NOTE.

- No translation of acquisitions made before 2004 (IFRS 3)
- The accumulated translation differences will be recorded as zero on 1 January 2004 (IAS 21).
- NOTE applied IAS 32 and 39 as of January 1, 2005 and consequently utilizes the possibility to not report financial instruments retroactively. The hedging occurring is futures contracts regarding currency flows. The effect of the introduction of IAS 39 is being recorded in supplements to the specification of equity.

### *IFRS 3 Operating acquisitions*

For acquisitions after 31 December 2003 other intangible assets in the acquisitions are disclosed separately from goodwill and written off during the period of utilisation. Goodwill is not depreciated, but is shown annually, or as an indication of a diminution of value, to be tested for possible depreciation needs. Consideration of write-down will be in accordance with IAS 36 Write downs.

NOTE's acquisitions prior to 2004 will be handled in accordance with the transitional regulations in IFRS 1 (see above). No acquisitions containing good will items were made in 2004.

### *IAS 19 Remuneration for employees*

NOTE's pension solutions are largely classified as contribution-determined pension plans. Through acquisitions during the first quarter of 2005 the group now also has benefit determined pension plans. Actuarial profits or losses for benefit-determined pension plans have been taken into consideration in the acquisition calculation.

This means that accounting records of remuneration for employees in the comparative year have not been affected by the introduction of IFRS.

### *IAS 38 Intangible assets*

As previously, NOTE is applying RR 15 Intangible Assets, the Swedish equivalent of IAS 38 Intangible Assets. No additional capitalization of costs has been deemed necessary in accordance with IFRS.

### *Significant effects on result and position*

The transition to IFRS has had the following effect on the profit/loss for 2004, which is reported in tables in connection with the profit/loss statement and specifications regarding equity.

- Depreciation on goodwill is ceasing (IFRS 3 and IAS 38)
- Profits and losses arising as a result of futures contracts that qualify for a cash-flow hedge are recorded in a hedge reserve within equity (from 1 January 2005). The period's effect on profit/loss as a result of cash flow coverage is marginal.

Next report date

The year-end financial statement for 2005 will be presented on 16 February 2006.

Norrtälje October 28, 2005

NOTE AB (publ)

Board of Directors

For additional information, contact:

CEO Kjell-Åke Andersson at +46 (0)708 – 60 81 23 or

CFO Gunilla Olsson at +46 (0)709 – 50 80 71.

This report has not been subjected to auditing by the company's auditors.

## SUMMARY OF THE GROUP'S PROFIT/LOSS STATEMENT

| Amounts in MSEK   | 2005<br>July-Sept | 2004<br>July-Sept | 2005<br>Jan-Sept | 2004<br>Jan-Sept | Oct 2004-<br>Sept 2005 | 2004<br>Jan-Dec |
|---|-------------------|-------------------|------------------|------------------|------------------------|-----------------|
| Net turnover  | 347,2             | 251,2             | 1075,9           | 826,3            | 1 352,7                | 1 103,1         |
| Cost of goods and services sold                                     | -303,1            | -214,6            | -1072,7          | -690,9           | -1 358,8               | -977,0          |
| Other income  | 0,0               | 3,2               | 4,0              | 7,9              | 14,3                   | 18,3            |
| <b>Gross result</b>   | <b>44,1</b>       | <b>39,8</b>       | <b>7,2</b>       | <b>143,3</b>     | <b>8,2</b>             | <b>144,5</b>    |
| Sales costs   | -8,6              | -9,9              | -41,9            | -32,6            | -59,6                  | -50,3           |
| Administrative costs  | -13,2             | -12,1             | -51,5            | -46,3            | -68,7                  | -63,5           |
| Other operating income/costs  | -1,0              | -0,2              | -1,5             | -0,6             | -2,1                   | -1,3            |
| <b>Operating profit *</b>   | <b>21,3</b>       | <b>17,6</b>       | <b>-87,7</b>     | <b>63,8</b>      | <b>-122,2</b>          | <b>29,4</b>     |
| Net interest income/expense   | -3,2              | -2,3              | -7,2             | -8,5             | -8,4                   | -9,8            |
| <b>Result after financial items</b>                                 | <b>18,1</b>       | <b>15,3</b>       | <b>-94,9</b>     | <b>55,3</b>      | <b>-130,6</b>          | <b>19,6</b>     |
| Tax   | -5,5              | -4,1              | 25,7             | -15,2            | 35,0                   | -5,9            |
| <b>Result for the period</b>  | <b>12,6</b>       | <b>11,2</b>       | <b>-69,2</b>     | <b>40,1</b>      | <b>-95,6</b>           | <b>13,7</b>     |
| Result for the period attributable to parent company's shareholders | 12,6              | 11,1              | -69,2            | 39,9             | -95,6                  | 13,5            |
| Result for the period attributable to minority owners               | 0,0               | 0,1               | 0,0              | 0,2              | 0,0                    | 0,2             |

Depreciation has been debited to the result for the period as follows:

|  |     |     |      |      |      |      |
|--|-----|-----|------|------|------|------|
|  | 8,2 | 6,1 | 23,9 | 17,7 | 30,6 | 24,4 |
|--|-----|-----|------|------|------|------|

Reconciliation of the result for the period between Swedish accounting principles and IFRS

|  |  |             |  |             |              |             |
|--|--|-------------|--|-------------|--------------|-------------|
| Result for the period, Swedish accounting principles |  | 10,3        |  | 37,7        | -96,5        | 10,5        |
| Goodwill   |  | 0,8         |  | 2,2         | 0,9          | 3,0         |
| Minority   |  | 0,1         |  | 0,2         | 0,0          | 0,2         |
| <b>Result for the period, IFRS</b>                   |  | <b>11,2</b> |  | <b>40,1</b> | <b>-95,6</b> | <b>13,7</b> |

The following depreciation rates have been applied:

Machinery and equipment 4-5 years, costs put into someone else's property 5 or 20 years, buildings 25 or 50 years, land improvements 20 years, brand 5 years, expenses brought forward for computer programs 4 years and expenses brought forward for process development 5 years as well as surplus value 10 years.

\* The consolidated operating results were negatively affected by provisions for write-downs, restructuring costs and other costs of a non-recurring character as follows: January-September 2005: MSEK 128 and the period October 2004-September 2005: MSEK 168.

## GROUP'S DATA PER SHARE

|  | 2005<br>July-Sept | 2004<br>July-Sept | 2005<br>Jan-Sept | 2004<br>Jan-Sept | Oct 2004-<br>Sept 2005 | 2004<br>Jan-Dec |
|--|-------------------|-------------------|------------------|------------------|------------------------|-----------------|
| Number of shares at end of period (thousands)        | 9 624             | 9 624             | 9 624            | 9 624            | 9 624                  | 9 624           |
| Average number of shares before dilution (thousands) | 9 624             | 9 624             | 9 624            | 8 496            | 9 624                  | 8 778           |
| Average number of shares after dilution (thousands)  | 9 624             | 9 624             | 9 624            | 8 762            | 9 624                  | 8 978           |
| Result per share before dilution, SEK                | 1,31              | 1,15              | -7,19            | 4,70             | -9,93                  | 1,54            |
| Result per share after dilution, SEK                 | 1,31              | 1,15              | -7,19            | 4,56             | -9,93                  | 1,51            |
| Equity per share before dilution, SEK                | 19,88             | 30,22             | 19,88            | 30,22            | 19,88                  | 27,51           |
| Equity per share after dilution, SEK                 | 19,88             | 30,22             | 19,88            | 30,22            | 19,88                  | 27,51           |

## SUMMARY OF GROUP'S BALANCE SHEET

| Amounts in MSEK                        | 2005<br>Sept | 2004<br>Sept | 2004<br>Dec  |
|--|--------------|--------------|--------------|
| <b>ASSETS</b>                          |              |              |              |
| Intangible fixed assets                | 51,2         | 26,2         | 28,1         |
| Tangible fixed assets                  | 124,9        | 105,0        | 104,5        |
| Financial fixed assets                 | 1,1          | 2,4          | 12,1         |
| <b>Fixed assets</b>                    | <b>177,2</b> | <b>133,6</b> | <b>144,7</b> |
| Stock                                  | 299,0        | 251,8        | 244,5        |
| Customer receivables                   | 272,4        | 268,4        | 263,9        |
| Other current assets                   | 66,6         | 51,7         | 63,8         |
| Cash and bank accounts                 | 7,7          | 46,4         | 20,1         |
| <b>Current assets</b>                  | <b>645,7</b> | <b>618,3</b> | <b>592,3</b> |
| <b>TOTAL ASSETS</b>                    | <b>822,9</b> | <b>751,9</b> | <b>737,0</b> |
| <b>EQUITY AND LIABILITIES</b>          |              |              |              |
| Equity parent company's shareholders   | 191,3        | 290,8        | 264,8        |
| Equity minority owners                 | 0,0          | 1,0          | 1,0          |
| <b>Equity</b>                          | <b>191,3</b> | <b>291,8</b> | <b>265,8</b> |
| Long-term interest-bearing liabilities | 89,0         | 173,4        | 126,2        |
| Allocations                            | 30,6         | 23,2         | 22,6         |
| <b>Long-term liabilities</b>           | <b>119,6</b> | <b>196,6</b> | <b>148,8</b> |
| Current interest-bearing liabilities   | 175,8        | 44,4         | 88,7         |
| Trade liabilities                      | 226,0        | 144,7        | 154,5        |
| Other current liabilities              | 86,4         | 74,4         | 74,9         |
| Allocations                            | 23,8         |              | 4,3          |
| <b>Current liabilities</b>             | <b>512,0</b> | <b>263,5</b> | <b>322,4</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>    | <b>822,9</b> | <b>751,9</b> | <b>737,0</b> |

## COLLATERAL PLEDGED AND CONTINGENT LIABILITIES

| Amounts in MSEK        | 2005<br>Sept | 2004<br>Sept | 2004<br>Dec |
|------------------------|--------------|--------------|-------------|
| Collateral pledged     | 282,2        | 300,1        | 264,9       |
| Contingent liabilities | 4,3          | 1,3          | 14,7        |

## CHANGE IN THE GROUP'S EQUITY

| Amounts in MSEK                                | 2005<br>July-Sept | 2004<br>July-Sept | 2005<br>Jan-Sept | 2004<br>Jan-Sept | Oct 2004-<br>Sept 2005 | 2004<br>Jan-Dec |
|--|-------------------|-------------------|------------------|------------------|------------------------|-----------------|
| <b>Opening capital</b>                         | <b>178,4</b>      | <b>280,2</b>      | <b>265,8</b>     | <b>145,9</b>     | <b>290,8</b>           | <b>145,9</b>    |
| Effect of change in accounting principles*     |                   | 0,9               |                  | 1,0              | 1,0                    | 0,8             |
| <b>Opening balance in accordance with IFRS</b> | <b>178,4</b>      | <b>281,1</b>      | <b>265,8</b>     | <b>146,9</b>     | <b>291,8</b>           | <b>146,7</b>    |
| Result for the period                          | 12,6              | 11,2              | -69,2            | 40,1             | -95,6                  | 13,7            |
| New share issue                                |                   |                   |                  | 105,1            |                        | 105,1           |
| Dividends paid                                 |                   |                   | -4,8             |                  | -4,8                   |                 |
| Change in group structure                      |                   |                   | -1,0             |                  | -1,0                   |                 |
| Translation difference                         | 0,3               | -0,5              | 0,5              | -0,3             | 0,9                    | 0,3             |
| <b>Closing capital</b>                         | <b>191,3</b>      | <b>291,8</b>      | <b>191,3</b>     | <b>291,8</b>     | <b>191,3</b>           | <b>265,8</b>    |

### Reconciliation of equity between Swedish accounting principles and IFRS

|   |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>Closing balance in accordance with Swedish accounting principles</b> | <b>288,6</b> |              | <b>288,6</b> |              | <b>261,8</b> |
| Goodwill  |              | 2,2          |              | 2,2          | 3,0          |
| Minority share in equity  |              | 1,0          |              | 1,0          | 1,0          |
| <b>Closing balance in accordance with IFRS</b>                          |              | <b>291,8</b> |              | <b>291,8</b> | <b>265,8</b> |

\*The effect of the change in accounting principles is attributable to the minority share. IAS 39 has no effect as of 01.01.2005.

## SUMMARY OF GROUP'S CASH-FLOW ANALYSIS

| Amounts in MSEK  | 2005<br>July-Sept | 2004-<br>July-Sept | 2005<br>Jan-Sept | 2004<br>Jan-Sept | Okt 2004-<br>Sept 2005 | 2004<br>Jan-Dec |
|--|-------------------|--------------------|------------------|------------------|------------------------|-----------------|
| Result after financial items   | 18,1              | 15,3               | -94,9            | 55,3             | -130,6                 | 19,6            |
| Items not included in the cash flow  | 4,7               | 8,3                | 50,3             | 21,6             | 55,9                   | 27,2            |
| Tax paid   | -7,7              | -5,2               | -3,5             | -14,7            | -5,6                   | -16,8           |
| <b>Cash flow from ongoing business before changes in operating capital</b> | <b>15,1</b>       | <b>18,4</b>        | <b>-48,1</b>     | <b>62,2</b>      | <b>-80,3</b>           | <b>30,0</b>     |
| Cash flow from changes in operating capital                                | -16,6             | -34,2              | 90,9             | -31,8            | 112,2                  | -10,5           |
| <b>Cash flow from ongoing business</b>                                     | <b>-1,5</b>       | <b>-15,8</b>       | <b>42,8</b>      | <b>30,4</b>      | <b>31,9</b>            | <b>19,5</b>     |
| <b>Cash flow from investment business</b>                                  | <b>-6,7</b>       | <b>-5,2</b>        | <b>-76,0</b>     | <b>-21,5</b>     | <b>-88,4</b>           | <b>-33,9</b>    |
| <b>Cash flow from financing business</b>                                   | <b>0,5</b>        | <b>-44,9</b>       | <b>20,8</b>      | <b>29,5</b>      | <b>17,8</b>            | <b>26,5</b>     |
| <b>Liquid assets at start of period</b>                                    | <b>15,4</b>       | <b>112,3</b>       | <b>20,1</b>      | <b>8,0</b>       | <b>46,4</b>            | <b>8,0</b>      |
| <b>Change in liquid assets for the period</b>                              | <b>-7,7</b>       | <b>-65,9</b>       | <b>-12,4</b>     | <b>38,4</b>      | <b>-38,7</b>           | <b>12,1</b>     |
| <b>LIQUID ASSETS AT END OF PERIOD</b>                                      | <b>7,7</b>        | <b>46,4</b>        | <b>7,7</b>       | <b>46,4</b>      | <b>7,7</b>             | <b>20,1</b>     |
| <b>Unused credits</b>  | <b>45,9</b>       | <b>92,8</b>        | <b>45,9</b>      | <b>92,8</b>      | <b>45,9</b>            | <b>99,0</b>     |
| <b>Disposable liquid assets</b>  | <b>53,6</b>       | <b>139,2</b>       | <b>53,6</b>      | <b>139,2</b>     | <b>53,6</b>            | <b>119,1</b>    |

## GROUP'S KEY RATIOS

|  | 2005<br>July-Sept | 2004<br>July-Sept | 2005<br>Jan-Sept | 2004<br>Jan-Sept | Okt 2004-<br>Sept 2005 | 2004<br>Jan-Dec |
|--|-------------------|-------------------|------------------|------------------|------------------------|-----------------|
| <b>Margins</b>                                       |                   |                   |                  |                  |                        |                 |
| Operating margin %                                   | 6,1               | 7,0               | -8,2             | 7,7              | -9,0                   | 2,7             |
| Profit margin %                                      | 5,2               | 6,1               | -8,8             | 6,7              | -9,7                   | 1,8             |
| <b>Return</b>  |                   |                   |                  |                  |                        |                 |
| Profitability of operating capital                   |                   |                   |                  |                  | -27,0                  | 6,6             |
| Profitability of equity                              |                   |                   |                  |                  | -44,8                  | 5,5             |
| <b>Capital structure</b>                             |                   |                   |                  |                  |                        |                 |
| Operating capital                                    | 448,4             | 463,2             | 448,4            | 463,2            | 448,4                  | 460,6           |
| Interest-bearing net liability                       | 257,1             | 171,4             | 257,1            | 171,4            | 257,1                  | 194,8           |
| Equity/assets ratio %                                | 23,2              | 38,8              | 23,2             | 38,8             | 23,2                   | 36,1            |
| Net debt/equity ratio, times                         | 1,3               | 0,6               | 1,3              | 0,6              | 1,3                    | 0,7             |
| Interest cover, times                                | 7,3               | 6,8               | -11,3            | 6,8              | -12,5                  | 2,7             |
| Speed of capital turnover (operating capital), times | 3,0               | 2,5               | 3,0              | 2,5              | 3,0                    | 2,5             |
| <b>Employees</b>                                     |                   |                   |                  |                  |                        |                 |
| Turnover per employee                                | 312               | 283               | 966              | 942              | 1 271                  | 1 244           |

Head office:NOTE AB, Box 910, Stockholmsv. 59, 761 29 Norrtälje, Sweden. Phone +46 (0)176-79900

[www.note.se](http://www.note.se) [info@note.se](mailto:info@note.se)

**NOTE**<sup>TM</sup>  
THE EMS PARTNER